

Economics

Internal Assessment

Individual Commentary Coversheet

Commentary 1	Criterion A: Diagrams	Criterion B: Terminology	Criterion C: Application	Criterion D: Analysis	Criterion E: Evaluation	Total marks	Nature of the article
Marks awarded for each criterion available	3 /3	2 /2	2 /2	3 /3	4 /4	14 /14	OK.
Comments	<p>Diagrams and terms are precise and well-applied. Labelling on diagrams compares for brief explanations.</p> <p>Theory is well applied + analysed through use of diagrams + supporting evidence.</p> <p>Excellent. Judgements are well reasoned + supported with evidence.</p> <p>Overall comments: An excellent first commentary.</p>						

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Microeconomics

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Britain

Tories' gas madness to cost you £100 a year

Friday 23 November 2012

by **Luke James**

Ministers announced plans to line the pockets of big business and squeeze ordinary people today with the coalition's new Energy Bill.

Green campaigners called it a "reckless dash for gas" that even Energy Secretary Ed Davey admitted would add £100 a year to families' bills.

The government plans to introduce the Bill to Parliament next week.

In it are plans to create a "capacity market" that ministers say will protect Britain from future fuel shortages through auctions with privateers, money to support nuclear and "low-carbon" power and proposals for a state-owned company to handle the contracts that govern those subsidies.

But green campaigners were scathing about ministers' decision not to include a legally binding commitment to shift to renewable energy in the Bill.

Greenpeace said the government had kicked "clean energy into the long grass" by putting off that decision until 2016.

Its executive director John Sauven said: "By failing to agree to any carbon target for the power sector until after the next election David Cameron has allowed a militant tendency within his own ranks to derail the Energy Bill.

"It's a blatant assault on the greening of the UK economy that leaves consumers vulnerable to rising gas prices, and sends billions of pounds of clean-tech investment to our economic rivals.

"The stakes couldn't be higher for our climate, our bills, and new green jobs, yet politicians could not be making a greater hash of it."

And Communist Party of Britain general secretary Rob Griffiths said the Bill would drive "millions more people into fuel poverty in order to subsidise the super profits of the energy monopolies.

"Far from being a green deal this will be yet another bad deal for household energy users.

"Redundancies in the steel industry, announced today, also bring home the impact of rising energy prices on productive industry."

Green MP Caroline Lucas echoed that point, saying that the Bill would force Britain to rely on expensive, imported gas.

Friends of the Earth executive director Andy Atkins said Mr Davey's announcement "banged the final nail in the coffin of Mr Cameron's

pledge to lead the greenest government ever."

Unison national officer for energy Matthew Lay said: "The Bill is simply a sticking plaster on an open wound.


"It is a bitter disappointment because customers cannot keep waiting for solutions to address the huge problems facing the energy industry.

"Only radical reform of the way energy is produced and delivered to households will deliver some relief.

"Too many people in Britain are worried about keeping warm this winter, let alone in 20 years' time."

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This article, discussing the British government's new Energy Bill, focuses on the negative impacts of increased green taxes imposed on energy companies in that they will "squeeze ordinary people" while still not doing enough to ensure the more widespread usage of renewable energy in the upcoming decades. However, due to the relatively elastic demand for energy from fossil fuels in the long-term, as well as the benefits of the money that will be able to be invested in green technology, it can be argued that the Energy Bill may, to a greater extent, be beneficial.

An advantage of increased taxes is that they may reduce the negative externalities of production from energy production using fossil fuels. These are present as consumers maximise their private utility so q is consumed instead of the socially efficient level of q^* . With the increased costs of production and therefore prices of consumption of electricity and gas heating, as demand becomes relatively more elastic as time passes, people may reduce their consumption of carbon energy resources. In Diagram 1 this is seen as a shift to the left of marginal private cost, producing a reduction in quantity produced and demanded and therefore in net welfare loss.

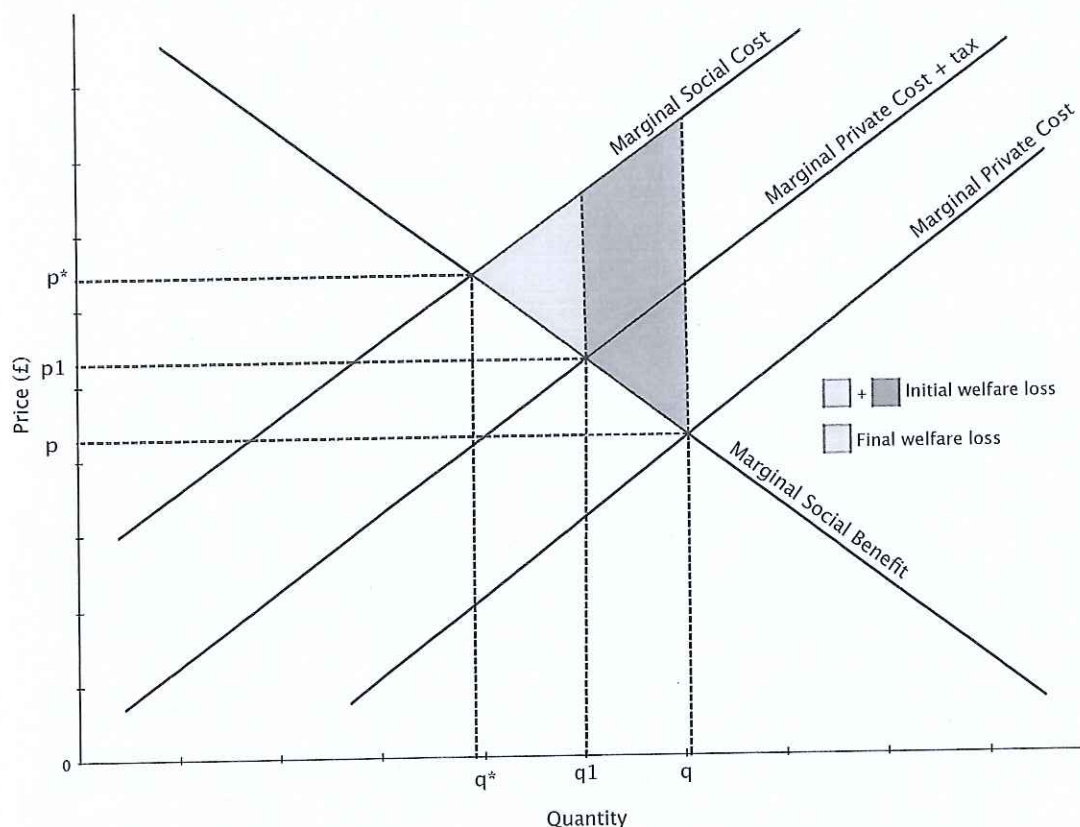


Diagram 1: Change in welfare loss due to taxing carbon energy resources

However, price elasticity of demand of energy consumption will be relatively inelastic in the short-term, meaning that percentage change in price is larger than percentage change in quantity demanded. As a result, it is likely that energy companies will be able to pass on the majority of the increased green taxes to consumers, which the Energy Secretary predicts could add "£100 a year to families' bills." This is demonstrated in Diagram 2 where the shift to the left of the supply curve, equal to the tax imposed, causes the equilibrium point to move

from q_e to q_{e1} . In consequence people may have less to spend on other goods, which would negatively impact many industries, and households could fall into “fuel poverty”, where more than 10% of a household’s income is needed to provide adequate heating¹.

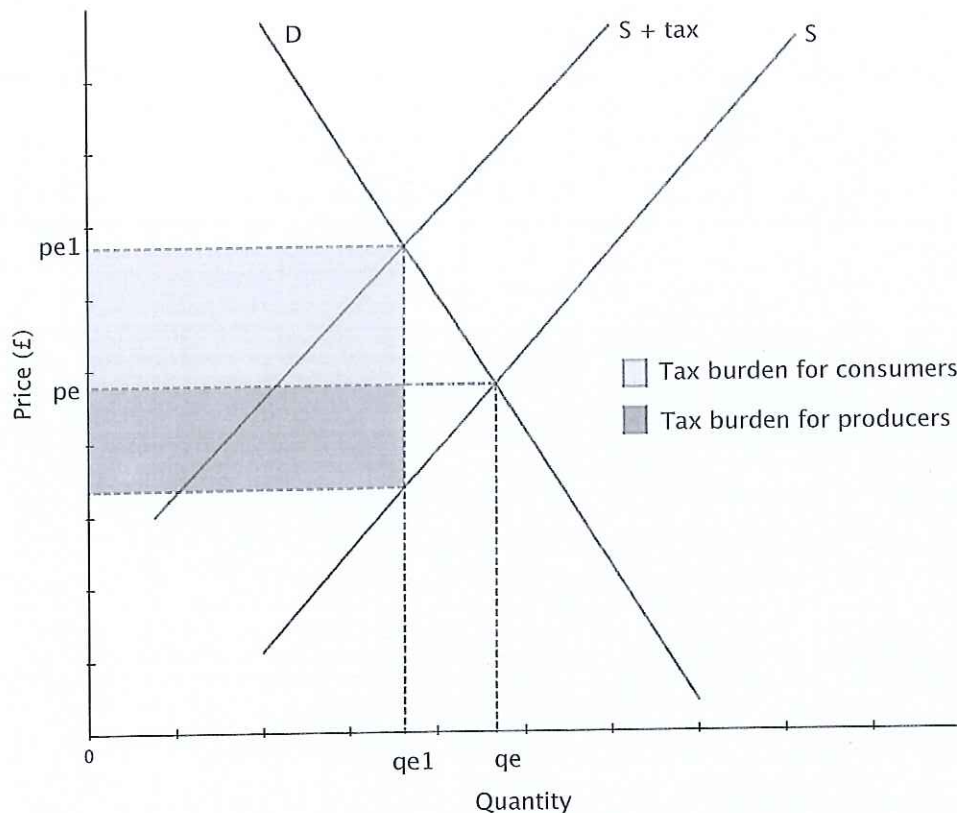


Diagram 2: Effect of tax on market equilibrium for carbon energy resources

The increased electricity bills will also directly impact businesses. Some may choose to relocate to other countries, or reduce the size of their business, which would result in fewer jobs being available. This is implied in paragraph twelve of the article, which mentions “redundancies in the steel industry”. It may however be that damages sustained to the economy by the diminution of certain industries may to a certain extent be balanced by the expansion of “nuclear and “low-carbon” power” producers.

In addition, the “contracts for differences”² should work to attract more investment in low-carbon generation. These, in combination with environmental tax money, should allow for more money being invested in finding cheaper and more efficient ways of producing low-carbon energy, thereby benefitting all electricity users in Britain and disproving the article’s declaration that the Energy Bill will serve merely to “line the pockets of big businesses”. This would mean that in the future low-carbon energy might be viewed as a more realistic substitute good for depleting fossil fuels. In Diagram 3 this is shown as a movement up the demand curve of fossil fuel energy as its prices increase leading to a shift to the right in the demand curve for low-carbon energy. What may also simultaneously be the case is Diagram 4: a movement down the demand curve for low-carbon energy as its price decreases and a shift to the left of the demand curve for fossil fuels. Without increased green taxes

now, an alternate scenario in the future could be even greater taxes later on as research into greener energy becomes increasingly urgent with the likely increases in prices of fossil fuels.

Diagram 3:

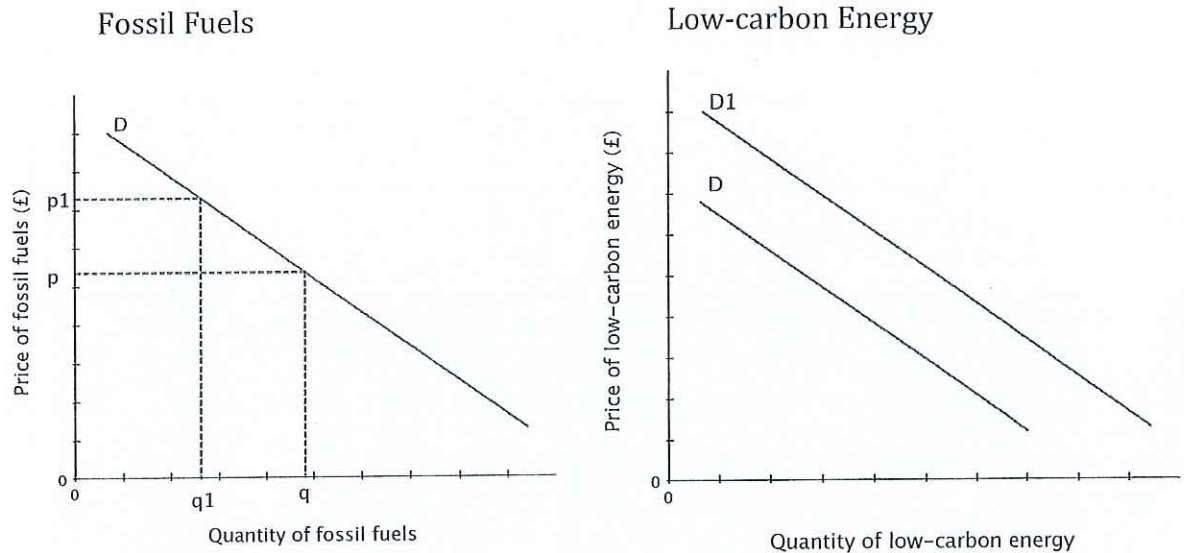
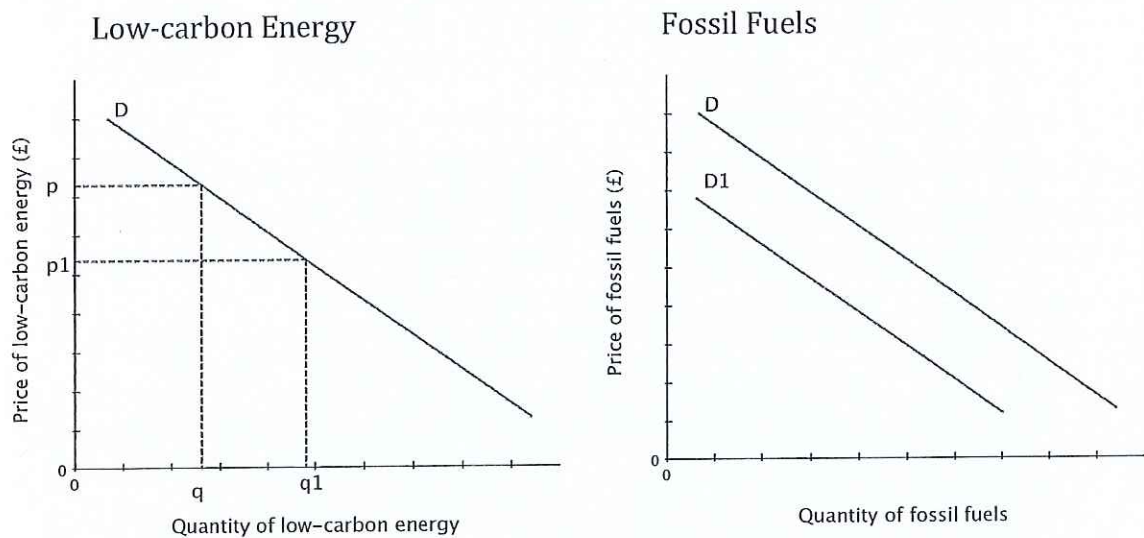


Diagram 4:



Nevertheless, the extent to which the Energy Bill will be successful in attracting investors for developing renewable energy technology is questionable, as it has delayed the decisions on when to fully decarbonise energy production "until 2016", which could lead to reduced confidence of investors in the extent to which the non-carbon energy sector will expand in the coming years.

While there are predominantly short-term negative impacts that the Energy Bill will have on firms and households in Britain, in particular low-income households who cannot afford to spend more money on electricity, it may be expected that the Energy Bill will have positive effects in the long-term. It will allow investment in renewable energy sources to increase to a certain extent,

demonstrating planning for future decades when fossil fuels will no longer be a suitable energy resource option.

1: "Fuel Poverty." - Department of Energy and Climate Change. N.p., n.d. Web. 8 Jan. 2013.

<http://www.decc.gov.uk/en/content/cms/funding/fuel_poverty/fuel_poverty.aspx>.

2: "Energy Bill." - Department of Energy and Climate Change. N.p., n.d. Web. 8 Jan. 2013. <<http://www.decc.gov.uk/en/content/cms/legislation/energybill2012/>>.